



ARTHUR ANDERSEN

**Nitto World Co., Limited**

Financial statements for the period ended 31 December 1998  
together with directors' and auditors' reports

Registered number: 2124389



## Directors' report

For the period ended 31 December 1998

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the period ended 31 December 1998.

### Principal activity and business review

On 23 December 1997 the entire share capital of the company was purchased by SLC Turnberry Limited. On 30 December 1997 the trade and assets of the company were transferred into SLC Turnberry Limited.

The company recorded an operating profit in the period of £11,818,606 (30 June 1997 - £1,092,773).

### Results and dividends

The turnover for the period was £5,954,668 (30 June 1997 - £10,027,131) and the profit on ordinary activities before and after taxation was £10,913,913 (30 June 1997 - loss £1,212,385).

No dividend is proposed (30 June 1997 - £Nil).

### Directors and their interests

The directors of the company during the period were:

T. Niino	(resigned 23 December 1997)
H. Matsuura	(resigned 3 December 1997)
K. Nakamura	(resigned 3 December 1997)
T. Matsuura	(resigned 3 December 1997)
K. Ohtsuka	(resigned 3 December 1997)
C. J. Rouse	(resigned 23 December 1997)
M. Chikubu	(resigned 3 December 1997)
N. Margalit	(appointed 23 December 1997, resigned 31 January 1998)
C. Colleta	(appointed 29 December 1997, resigned 29 September 1998)
M. Mueller	(appointed 29 December 1997, resigned 31 December 1998)
T. E. Dupar	(appointed 30 December 1997, resigned 31 January 1998)
T.W. Darnall	(appointed 29 December 1997)
R. Cotter	(appointed 29 September 1998)
M.P. Wale	(appointed 29 September 1998)

No director had a beneficial interest in the shares of the company at any time during the period.

## Directors' report (continued)

### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Year 2000

After an initial assessment of the potential impact of the Year 2000 on the company, a plan was developed to ensure that all significant risks were addressed well in advance of the critical dates and with minimum disruption to the business.

The board is confident that we achieved Year 2000 compliance in all areas which had a potential impact on the business and the cost of doing so did not have a material impact on the company.

### Auditors

A resolution will be submitted at the annual general meeting to reappoint Arthur Andersen, Chartered Accountants, as auditors for the ensuing year.

Sheraton Skyline Hotel  
Bath Road  
Hayes  
Middlesex  
UB3 5BP

By order of the Board,



M. P. Wale  
Director

21 February 2000

**To the Shareholders of Nitto World Co., Limited:**

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

**Respective responsibilities of directors and auditors**

As described on page 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*Arthur Andersen.*

Arthur Andersen  
Chartered Accountants and Registered Auditors  
191 West George Street  
Glasgow  
G2 2LB

21 February 2000

## Profit and loss account

For the period ended 31 December 1998

	Notes	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
<b>Turnover</b>	2	5,954,668	10,027,131
Cost of sales		(3,215,645)	(5,505,298)
<b>Gross profit</b>		2,739,023	4,521,833
Other operating expenses (net)	3	(115,501)	(3,429,060)
Exceptional operating costs	4	(2,998,610)	-
Exceptional operating income	5	12,193,694	-
<b>Operating profit</b>		11,818,606	1,092,773
Investment income	6	94,219	162,495
Interest payable and similar charges	7	(998,912)	(2,467,653)
<b>Profit/(loss) on ordinary activities before taxation</b>	8	10,913,913	(1,212,385)
Taxation	10	-	-
<b>Retained profit/(loss) for the financial period</b>	19	10,913,913	(1,212,385)

The accompanying notes are an integral part of this profit and loss account.

The company has no recognised gains or losses other than the result for each financial period.

All of the above operating results derive from activities which were discontinued following the transfer of the company's trade and assets to SLC Turnberry Limited on 30 December 1997.

Balance sheet  
31 December 1998

	Notes	31 December 1998 £	30 June 1997 £
<b>Fixed assets</b>			
Tangible assets	11	-	33,781,786
Investments	12	-	650
		<u>-</u>	<u>33,782,436</u>
<b>Current assets</b>			
Stocks	13	-	570,593
Debtors: Amounts falling due within one year	14	4,101,473	1,109,192
Debtors: Amounts falling due after more than one year	14	-	787,650
Cash at bank and in hand		-	1,701,848
		<u>4,101,473</u>	<u>4,169,283</u>
<b>Creditors: Amounts falling due within one year</b>	15	-	(44,678,083)
<b>Net current assets/(liabilities)</b>		<u>4,101,473</u>	<u>(40,508,800)</u>
<b>Total assets less current liabilities</b>		<u>4,101,473</u>	<u>(6,726,364)</u>
<b>Creditors: Amounts falling due after more than one year</b>	16	-	(86,076)
<b>Net assets/(liabilities)</b>		<u>4,101,473</u>	<u>(6,812,440)</u>
<b>Capital and reserves</b>			
Equity share capital	18	8,900,000	8,900,000
Share premium account	19	9,757,890	9,757,890
Profit and loss account	19	(14,556,417)	(25,470,330)
<b>Total capital employed/(absorbed)</b>		<u>4,101,473</u>	<u>(6,812,440)</u>

Signed on behalf of the Board



M. P. Wale  
Director

21 February 2000

The accompanying notes are an integral part of this balance sheet.

## Notes to financial statements

31 December 1998

### 1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period and the preceding year, is set out below.

#### a) *Basis of accounting*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### b) *Cash flow statement*

The company has taken advantage of the exemption in FRS 1 to dispense with the requirement to include a cash flow statement in its financial statements as its financial statements are incorporated into the consolidated financial statements of Starwood Hotels and Resorts Worldwide Inc., which are available to the public.

#### c) *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation as set out in note 11.

Prior to the transfer of the trade and assets to SLC Turnberry Limited, no depreciation was provided on freehold land and buildings as the directors were of the opinion that given the high level of expenditure on general maintenance, the length of lives and residual values of these buildings are such that no provision for depreciation was required. Depreciation on other tangible fixed assets was provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis using the following annual rates which were based on the expected useful economic lives of the assets:

Plant and equipment	5% to 50%
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#### d) *Investments*

Fixed asset investments are shown at cost less amounts written off and provisions for impairment.

#### e) *Stocks*

Stocks are stated at the lower of cost and net realisable value.

## Notes to financial statements (continued)

### 1 Statement of accounting policies (continued)

#### *f) Foreign currency*

Transactions denominated in foreign currencies are recorded in sterling at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

#### *g) Turnover*

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

#### *h) Leases*

Assets acquired under finance leases are initially reported at the fair value of the asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations relating to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term. Further information on charges in the year and future commitments is given in note 20.

#### *i) Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method.

Deferred tax is provided on timing differences which, in the opinion of the directors, will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

#### *j) Pension contributions*

The company operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. Further information on this scheme is provided in note 20.

### 2 Segment information

In the opinion of the directors the company has only one market segment and thus no segmental analysis is provided.



# Notes to financial statements (continued)

## 3 Other operating expenses (net)

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Selling and marketing costs	291,515	668,761
Administrative expenses	1,037,263	2,653,125
Other income	(45,107)	(37,909)
(Gain)/loss on exchange movements	(1,168,170)	145,083
	<u>115,501</u>	<u>3,429,060</u>

## 4 Exceptional operating costs

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Write down of fixed assets	2,997,960	-
Write off of investment in Nitto-Alfred McAlpine	650	-
	<u>2,998,610</u>	<u>-</u>

## 5 Exceptional operating income

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Recovery of intercompany loan previously written off	655,501	-
Forgiveness of intercompany loan liabilities	11,538,193	-
	<u>12,193,694</u>	<u>-</u>

## Notes to financial statements (continued)

### 6 Investment income

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Interest received on loans to other group undertakings	25,166	57,343
Bank interest	69,053	105,152
	<u>94,219</u>	<u>162,495</u>

### 7 Interest payable and similar charges

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
On loans from other group undertakings		
- repayable within five years, not by instalments	340,331	634,749
On bank loans		
- repayable within five years, not by instalments	658,581	1,832,904
	<u>998,912</u>	<u>2,467,653</u>

### 8 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation for the period is stated after charging/(crediting):

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Depreciation	100,582	243,487
Auditors' remuneration		
- audit services	-	22,000
- non-audit services	-	8,000
Staff costs (note 9)	1,557,352	3,238,858
Hire of plant and machinery		
- under operating leases	34,921	74,084
Exchange gain/(loss) arising principally on the translation of loans denominated in foreign currencies	(1,168,170)	145,083
Intercompany loans receivable written off	-	223,237
	<u></u>	<u></u>

Auditors' remuneration in the period to 31 December 1998 has been borne by a fellow group undertaking.

## Notes to financial statements (continued)

### 9 Staff costs

Particulars of employees are as shown below:

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Employee costs during the period amounted to:		
Wages and salaries	1,391,760	2,907,781
Social security costs	109,683	219,465
Other pension costs	55,909	111,612
	<u>1,557,352</u>	<u>3,238,858</u>

The average monthly number of persons employed by the company during the period was as follows:

	31 December 1998 Number	30 June 1997 Number
Permanent	17	230
Casual	40	27
	<u>57</u>	<u>257</u>

#### *Remuneration*

The remuneration of the directors was as follows:

	Eighteen months to 31 December 1998 £	Year to 30 June 1997 £
Emoluments	<u>39,749</u>	<u>74,972</u>

#### *Pensions*

The number of directors who were members of pension schemes was as follows:

	31 December 1998 Number	30 June 1997 Number
Defined benefit schemes	<u>1</u>	<u>1</u>

## Notes to financial statements (continued)

### 10 Taxation

No tax charge arose in either period due to the availability of losses within the group.

### 11 Tangible fixed assets

The movement in the period was as follows:

	Freehold land & buildings £	Plant & equipment £	Total £
<b>Cost</b>			
Beginning of period	33,009,999	3,913,329	36,923,328
Additions	35,877	119,202	155,079
Revaluation of fixed assets	(2,997,960)	-	(2,997,960)
Transferred to fellow group undertakings	(30,047,916)	(4,032,531)	(34,080,447)
End of year	-	-	-
<b>Depreciation</b>			
Beginning of period	-	3,141,542	3,141,542
Charge	-	100,582	100,582
Transferred to fellow group undertakings	-	(3,242,124)	(3,242,124)
End of period	-	-	-
<b>Net book value</b>			
End of period	-	-	-
Beginning of period	33,009,999	771,787	33,781,786

Plant and equipment includes £nil (30 June 1997 - £137,148) of assets at net book value held under finance leases.

Freehold land and buildings are not depreciated.

### 12 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	31 December 1998 £	30 June 1997 £
Subsidiary undertakings	-	650

## Notes to financial statements (continued)

### 12 Fixed asset investments (continued)

The company held investments in the following subsidiary undertaking:

	Country of registration	Principal activity	Description & proportion of shares held
Nitto-Alfred McAlpine Limited	England	Non-trading	65% ordinary share capital

Prior to the transfer of the trade and assets into SLC Turnberry Limited the cost of the above investment was written off. (see note 4)

### 13 Stocks

The following are included in stocks:

	31 December 1998 £	30 June 1997 £
Glass, crockery and silverware	-	149,503
Food and beverage	-	113,796
Goods held for resale	-	245,000
Other	-	62,294
	<hr/>	<hr/>
	-	570,593

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

## Notes to financial statements (continued)

### 14 Debtors

The following are included in debtors:

	31 December 1998 £	30 June 1997 £
Amounts falling due within one year:		
Trade debtors	-	501,547
Prepayments and accrued income	-	171,693
Amounts due from other group undertakings	4,101,473	433,202
Other debtors	-	2,750
	<u>4,101,473</u>	<u>1,109,192</u>
Amounts falling due after more than one year:		
Amounts due from other group undertakings	-	787,650

### 15 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	31 December 1998 £	30 June 1997 £
Bank loans	-	16,461,893
Trade creditors	-	386,042
Amounts due to other group undertakings	-	26,199,186
Obligations under finance leases	-	46,470
Accruals and deferred income	-	1,292,248
Other creditors	-	
- VAT	-	292,244
	<u>-</u>	<u>44,678,083</u>

### 16 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	31 December 1998 £	30 June 1997 £
Obligations under finance leases	-	86,076

## Notes to financial statements (continued)

### 16 Creditors: Amounts falling due after more than one year (continued)

#### Analysis of borrowings

Borrowings are repayable as follows:

	31 December 1998 £	30 June 1997 £
Within 1 year		
- loans from other group undertakings	-	22,308,510
- bank loans	-	16,461,893
- finance leases	-	46,470
Within 1-2 years		
- finance leases	-	37,835
Within 2-5 years		
- finance leases	-	48,241
	<u>-</u>	<u>38,902,949</u>

### 17 Deferred taxation

No deferred taxation has been provided (30 June 1997 - £Nil) because the directors have concluded, on the basis of reasonable assumptions and the intentions of management that it is improbable that any liability will crystallise due to significant brought forward tax losses.

### 18 Equity share capital

	31 December 1998 £	30 June 1997 £
<i>Authorised</i>		
96,800 ordinary shares of £100 each	<u>9,680,000</u>	<u>9,680,000</u>
<i>Allotted, called-up and fully-paid</i>		
89,000 ordinary shares of £100 each	<u>8,900,000</u>	<u>8,900,000</u>

### 19 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	31 December 1998 £	30 June 1997 £
Non-distributable		
- profit and loss account	(14,556,417)	(25,470,330)
- share premium account	<u>9,757,890</u>	<u>9,757,890</u>
	<u>4,798,527</u>	<u>(15,712,440)</u>

## Notes to financial statements (continued)

### 19 Reserves (continued)

The movement in the profit and loss account was as follows:

	31 December 1998 £	30 June 1997 £
At beginning of period	(25,470,330)	(24,257,945)
Profit/(loss) for financial period	10,913,913	(1,212,385)
At end of period	<u>(14,556,417)</u>	<u>(25,470,330)</u>

### Reconciliation of movements in shareholders' funds

	31 December 1998 £	30 June 1997 £
Profit/(loss) for financial period	10,913,913	(1,212,385)
Net addition/(reduction) in shareholders' funds	10,913,913	(1,212,385)
Opening shareholders' deficit	(6,812,440)	(5,600,055)
Closing shareholders' funds/(deficit)	<u>4,101,473</u>	<u>(6,812,440)</u>

### 20 Guarantees and other financial commitments

#### a) Capital commitments

At the end of the period, capital commitments were:

	31 December 1998 £	30 June 1997 £
Contracted for but not provided for	<u>-</u>	<u>117,388</u>



## Notes to financial statements (continued)

### 20 Guarantees and other financial commitments (continued)

#### *b) Lease commitments*

The company has entered into non-cancellable leases in respect of property, plant and equipment, the payments for which extend over a period of up to 7 years.

The minimum annual rentals under the foregoing leases are as follows:

	31 December 1998 £	30 June 1997 £
Operating leases which expire		
- within 1 year	-	35,690
- within 2-5 years	-	11,925
- after 5 years	-	9,978
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	-	57,593
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#### *c) Pension arrangements*

The responsibility for the pension scheme was transferred to SLC Turnberry Limited at the time of the transfer of the trade and assets.

### 21 Related party transactions

The company is exempt from the requirement of FRS 8 to include details of transactions with other group companies.

### 22 Ultimate parent company

The immediate parent company is SLC Turnberry Limited, a company incorporated in Scotland.

The smallest and largest group in which the results of Nitto World Co Limited are consolidated is Starwood Hotels and Resorts Worldwide Inc. Copies of the financial statements of this group are available to the public at:

Starwood Hotels and Resorts Worldwide Inc  
Investor Relations  
777 Westchester Avenue  
White Plains  
NY  
10604